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SUBJECT: SCENESETTER FOR CODEL MCCONNELL

¶1. Summary: You arrive in Santiago three days before the presidential run-off election on January 15. This election pits the top two vote-getters from the December 11 first round election: center-left Concertacion coalition's Michelle Bachelet and the center-right National Renewal Party's Sebastian Pinera. It will be both an exciting and a ho-hum time, as this is the fourth post-Pinochet free and open election in the stable democracy. Chile continues to support U.S. policy objectives in the region. Chile continues to play a leading role in Haiti, and cooperates with us on non-proliferation, counter-terrorism and counter-narcotics issues. Military relations are expanding, and President Lagos continues to express interest in strengthening relations as an element in modernizing the Chilean military and integrating it completely as a respected member of Chilean society. A sweeping nationwide judicial reform was completed in June.

¶2. Chile's economy is strong and stable. Bilateral trade is robust in this second year of the U.S.-Chile Free Trade Agreement, although Chile's insufficient protection of intellectual property rights remains a serious area of concern. Educational, cultural and sports exchange programs enjoy success and attention in Chile, but could always use more funding. Chile suffers from many of the usual challenges a modern society faces - crime, drug addiction, a faltering retirement/pension system, etc. While in the Latin American context, Chile stands out as a political and economic success story, the Embassy is constantly vigilant. Complacency or resting on its perceived laurels will neither benefit Chile's global competitiveness, nor make it the kind of serious regional partner the U.S. needs. End summary.

¶3. In this cable:

- The Domestic Scene
- Regional Issues
- Middle East
- UN Issues
- Chilean Economy
- IPR Issues
- Non-proliferation
- Military Cooperation
- International Criminal Court/Article 98
- Counter-terrorism
- Counter-narcotics
- Americans in Chile
- Hague Convention Child Custody Issues
- Fulbright Scholarship Program in Chile
- Proposal to bring back the Peace Corps
- Cultural and Youth Sports Exchanges

THE DOMESTIC SCENE

¶4. Chile held its first round of presidential elections on December 11. Ruling center-left Concertacion's Michelle Bachelet won 45.9 percent of the vote; center-right National Renewal's Sebastian Pinera 25.44 percent; rightist Independent Democratic Union's Joaquin Lavín 23.23 percent; and leftist "Together We Can" coalition's Tomas Hirsch 5.39 percent. (President Ricardo Lagos, who is riding high in the polls at 70 percent, as incumbent is constitutionally barred from serving consecutive terms.) None of the presidential candidates won more than 50 percent of the vote. As a result, the top two vote-getters -- Bachelet and Pinera -- will compete in a run-off election on January 15. If Bachelet wins, she will be Chile's first female president and the fourth consecutive Concertacion president. This is Chile's fourth presidential election since the end of the Pinochet era in 1989. All four have been judged free and fair.

¶5. Chileans also voted for half of the elected Senators, and all 120 members of the Chamber of Deputies (the lower house) on December 11. For the first time, the Concertacion coalition won a majority in both houses. The new president and members of Congress will take office on March 11, 2006.

¶6. Chile has taken several significant steps to strengthen democratic institutions to deal with the human rights abuses of the past. In November 2004, the National Commission on Political Prisoners and Torture (Valech Commission) issued a landmark report on human rights abuses during the Pinochet era. Also, the judicial system continues to investigate and prosecute a number of human rights cases. One, that of AmCit Boris Weisfeiler, who disappeared in Chile in 1985, is of particular importance to us. In June 2005, a historic, nationwide judicial reform went fully into effect, with Santiago joining the other 12 regions in moving to an adversarial American-style legal system. In September, President Lagos signed into law several constitutional amendments passed by Congress. These include eliminating the positions of appointed senators and senators-for-life, granting the President authority to remove the commanders-in-chief of the armed forces and police, and reducing the presidential term from six to four years.

REGIONAL ISSUES

¶7. Haiti: Chile has been in Haiti as part of the UN peacekeeping force for almost two years. Chile responded positively to the USG's request for support in February 2004, and self-deployed a battalion to Haiti within 48 hours. The GOC currently has more than 500 troops there as part of the UN Mission, a Chilean civilian serves as UN Special Representative, and a Chilean general serves as the deputy commander of the UN military forces. In May 2005, the Chilean Congress voted to extend Chile's troop deployment for six months to December 2005, with a provision that the Government can extend the deployment for an additional six months to June 2006. Chile also has offered election assistance. However, domestic support for the troop presence in Haiti should not be taken for granted. Chilean casualties in Haiti, or deepening problems there, could threaten the GOC's resolve. Four Chilean peacekeepers were recently injured in an attack in Haiti. Chile has also voiced concerns about what it sees as too much emphasis on security and not enough on development and humanitarian projects, echoing Brazil's concerns.

¶8. Venezuela: Despite its center-left political orientation, the governing Concertacion coalition is wary of President Chavez. The GOC generally shares U.S. frustrations with the Venezuelan leader's actions, particularly his non-democratic ways, and is concerned that Chavez, rhetoric and actions (especially regarding Bolivia) could prove destabilizing for the region. FM Walker met with the Venezuelan opposition

group SUMATE in Santiago in August 2005. However, the GOC believes that dialogue and engagement offers the best chance to promote democratic practices in Venezuela.

¶9. Cuba: Relations between Chile and Cuba have been strained since Lagos became president in March 2000. In one of his first major foreign policy decisions, President Lagos instructed the Chilean mission in Geneva to vote in favor of the resolution condemning Cuba's human rights record -- a position he has maintained ever since. Chile does, however, oppose the U.S. embargo, believing it hurts the average Cuban. In just the last two weeks, the Cuban ambassador ended his tour amid widespread press reports that he had been unsuccessful as he had been unable to change Chile's policies toward Cuba during his tenure.

¶10. Bolivia: Chile and Bolivia do not enjoy full diplomatic relations. Their historic border dispute stemming from the War of the Pacific (1879-1883), in which Bolivia lost the province of Antofagasta in the north to Chile and thus became landlocked, continues to cloud bilateral relations. However, President Lagos and former Bolivian President Rodriguez took several steps during the last six months to improve relations, including agreements to eliminate a range of tariffs on Bolivian imports and passports for cross-border travel. Morales' election victory has intensified Chilean concerns about Bolivian stability, given his populist tendencies, anti-Chilean rhetoric and close ties with Venezuelan President Chavez as well as Fidel Castro.

MIDDLE EAST

¶11. The Lagos Administration has been generally supportive of the Road Map and other U.S. initiatives to establish peace and security in the Middle East. Foreign Minister Walker visited Israel and Ramallah in March 2005 -- the first official trip by a Chilean foreign minister to Israel and the Palestinian territories. In May, Palestinian President Abbas visited Chile (at the invitation of President Lagos), where he met with congressional leaders, business groups and members of the Palestinian community, in addition to President Lagos. Chile has third and fourth generations of Palestinian, Lebanese, and Syrian immigrants who are well-integrated into society. The American Jewish Committee recently gave its "Light of the Nations" award to President Lagos. At the United Nations, Chile historically has adopted what it considers to be a balanced approach to the Middle East. Most recently, Chile supported the Holocaust Remembrance Resolution, while also voting in favor of resolutions that would maintain international organizations that the U.S. considers anti-Israel.

SUPPORT AT THE UNITED NATIONS

¶12. Aside from opposing the Iraq intervention in early 2003, the GOC played a supportive role during its 2002-04 term on the UNSC. Chile supported U.S. initiatives on Afghanistan and Iraqi reconstruction, and provided the crucial ninth vote for UNSCR 1559, reaffirming Lebanon's territorial integrity. During the recent United Nations General Assembly (UNGA) meeting, Chile endorsed several key U.S. foreign policy objectives. Chile voted in favor of: Haiti-related resolutions; the Holocaust Remembrance Resolution; key resolutions condemning human rights practices in some countries; and the re-election of a U.S. judge to the International Court of Justice (ICJ). Chile played a leading role in supporting the Third Additional Protocol to the Geneva Convention. This should pave the way for Magen David Adom (MDA) membership in the International Red Cross and Red Crescent Movement, with a third symbol - the red crystal.

Chilean Economy

¶13. Chile's robust economy is a key reason behind President Lagos' 70 percent approval rating. The Chilean economy grew at an impressive 6.1 percent in 2004 -- almost double the rate in 2003. It is on track to expand by as much as 6 percent in 2005, due in large measure to record-level global copper prices. Bilateral trade increased over 30 percent during 2004, the first year of the U.S.- Chile Free Trade Agreement, and related cooperation on labor and environmental protection has gone smoothly. U.S. exports in the first three quarters of 2005 have already outpaced total exports for 2004. U.S. imports from Chile continue to grow as well. The U.S. remains Chile's most important source of foreign investment, although Spain surpassed us in 2004 as the number one provider of foreign direct investment. The U.S. is the top destination for overseas Chilean investment. Since 1990, U.S. firms have invested over USD 16 billion in Chile, with a concentration in the energy, telecommunications and mining sectors. U.S. companies are generally welcome in Chile's mostly transparent but close-knit business climate.

¶14. Chile continues to seek to codify its diversified trading relations through an ever-expanding web of bilateral trade agreements with a particular eye towards the markets of Asia.

In the last few years, it has concluded free trade agreements with South Korea, New Zealand, Singapore, Brunei and most recently with China. It will begin talks for free trade agreements with India and Japan in 2006. Fully one third of Chile's trade is already with Asia -- China, Japan, and South Korea are its number two, three and four trading partners, respectively -- and all indications are that Chile is seeking to expand further its ties with Asia.

IPR ISSUES

¶15. The dark cloud hanging over the roaring success of the FTA is Chile's weak and unwilling protection of patents, copyrights and trademarks. American companies are directly affected by patent violations, particularly in the pharmaceutical industry. Though the FTA contains clear language on this issue, IPR is a contentious problem between the U.S. and Chile. On the Chilean side, there is no effective inter-agency policy for protecting IPR. There was some effort in the latter half of 2005 to respond to U.S. concerns, but the jury is still out.

NON-PROLIFERATION

¶16. Chile shares many of our non-proliferation and disarmament objectives. The GOC supported a number of U.S.-sponsored initiatives during its tenure on the UNSC and its chairmanship of the Asia-Pacific Economic Cooperation forum. It recently co-sponsored the OAS MANPADS resolution. The GOC has expressed general support for the USG's Proliferation Security Initiative (PSI) and attended both PSI anniversary events. While the GOC has stopped short of publicly endorsing it, there are some indications the GOC may be willing to step up to the plate on PSI.

¶17. Chile is a signatory to the IAEA additional protocol. Chile enforces the United States Coast Guard's International Ship and Port Facility Security Code (ISPS). Chile is not a signatory to the Container Security Initiative (CSI) or the Megaports Initiative. The GOC is considering seeking membership in the Missile Technology Control Regime (MTCR), the Australia Group and the Wassenaar Group.

MILITARY COOPERATION

¶18. President Lagos has expressed interest in strengthening U.S.-Chile military relations as an element in modernizing and normalizing the Chilean military's role in Chilean

society. Chile has never signed a Status of Forces Agreement (SOFA) with any country. There is little chance of starting negotiations between the U.S. and Chile until after the new Chilean administration takes over in March 2006. That said, the GOC provided limited yet adequate protections to DOD personnel involved in the seven military exercises that took place during 2005.

¶19. The GOC will begin taking delivery in January 2006 of ten F-16 fighter aircraft -- the first major purchase of U.S. equipment since our cut-off of military sales during the Pinochet era. The Army and Navy are also considering significant purchases of U.S.-manufactured systems. The U.S. has provided over USD 1 million to Chile's topnotch military peacekeeping training facility and has been working to increase the GOC's global peacekeeping role. Chile has contributed small contingents to UN missions in Cyprus, Bosnia and Kosovo, in addition to the 600 troops and engineers currently stationed in Haiti.

INTERNATIONAL CRIMINAL COURT/ARTICLE 98

¶20. Chile has signed but not yet ratified the Rome Statute. The U.S. and Chile do not have an Article 98 agreement, and the current Chilean government insists that there is no political support for such an accord. ICC ratification in the absence of an Article 98 agreement would trigger sanctions under the American Servicemembers' Protection Act (i.e. a cut-off of IMET and FMF funds). Support for ICC ratification in Chile runs across the political spectrum. However, the GOC executive branch and Congress have agreed not to move forward on ICC ratification during the remainder of the Lagos Administration, to allow Chile time to find "a creative solution" to avoid the cut-off of U.S. military assistance.

COUNTER-NARCOTICS

¶21. While not itself a center of illicit narcotics production, Chile is a transit country for cocaine and heroin shipments destined for the U.S. and Europe. Chile also has its own internal cocaine and marijuana consumption problem, with ecstasy continuing to grow in popularity. From the production angle, Chile is a source of essential chemicals for coca processing in neighboring Peru and Bolivia. Chile is a party to the 1988 UN Drug Convention, and U.S. and Chilean law enforcement entities generally cooperate smoothly. Through the Operation Pipeline program, national law enforcement officials work closely with the U.S. to interdict drug traffickers using northern Chile's road system. In addition, through the Operation "Seis Fronteras" ("Six Borders") Program established in 2004, Chile is working with its neighbors to halt the export of illicit production chemicals from Chile. Chile recently strengthened its legislation to regulate these precursor chemicals. The September 2002 Letter of Agreement between Chile and the U.S. remains the most recent accord for cooperation and mutual assistance in narcotics-related matters.

COUNTER-TERRORISM

¶22. Chile is a signatory to the UN International Convention for the Suppression of the Financing of Terrorism and is a signatory to all 12 Anti-Terrorism Conventions and Protocols. Chile continued to demonstrate its regional leadership in combating terrorism by completing a successful two years on the UN Sanctions Committee in 2004. It remains on the UN's "least desirable" country list for terrorist operations in the hemisphere. As a result, the Chilean Government and law enforcement agencies do not perceive international terrorism as a major concern or threat for Chile. However, the GOC often characterizes the activities of certain indigenous

groups as "domestic terrorism." In mid-2004, Chile established a Financial Intelligence Unit (FIU) to combat money laundering and terrorist finance. For the first time, the banking sector has begun to submit suspicious transaction reports to a single agency. However, the enabling laws for the FIU's enforcement mechanisms are weak and legislation to increase its authority are stalled in Congress.

AMERICANS IN CHILE

¶23. The American community in Chile numbers about 15,000, of which 10,500 are registered with the Embassy's American Citizen Services unit. There about 1300 retired Americans living in Chile who receive Social Security or other federal benefits. The resident American community has grown rapidly in recent years thanks largely to the growth of student exchange programs. There are about 1000 U.S. exchange students in Santiago, the largest number in any South American city. Another factor has been the implementation of the U.S.-Chile Free Trade Agreement. Chile is an increasingly popular destination for U.S. tourists and business visitors. The number of Americans entering Chile leapt 35 percent since 2003, according to official Government of Chile statistics. Much of the increase has been driven by the rapid development of the cruise ship industry. For example, while 80,000 cruise ship passengers arrived in 2004, this figure is projected to triple in the next five years. About 85 percent of these passengers are American citizens. The rapid growth of the American community and of tourism from the U.S. has had a profound impact on the Embassy's workload. For example, during 2003-2005, the Embassy's passport application rate increased 34 percent, while the number of death cases increased a staggering 84 percent. The latter was due to several factors -- cruise ship passengers tend to be elderly; the resident American community includes aging retirees; and, high-risk "adventure" sports enthusiasts gravitate toward Chile's mountains.

HAGUE CONVENTION CHILD CUSTODY ISSUES

¶24. Chile was cited as "Not Fully Compliant" in last year's State Department report on compliance with the Hague Convention on the Civil Aspects of International Parental Child Abduction. We have five pending Hague Convention cases. In each, Chilean appellate courts have demonstrated a tendency to ignore the Convention's requirement that abducted children be returned to their place of habitual residence and set aside lower Chilean court rulings. Instead, the Chilean appellate courts have tended toward custody decisions which have favored the taking Chilean citizen mother over the left-behind American citizen father. The Chilean government is aware of this trend at the appellate level and works cooperatively with us on Hague issues. The Ministry of Justice -- in conjunction with the Embassy and the State Department's Office of Children's Issues -- is sponsoring a seminar on the Hague Convention for judges in late January 2006.

FULBRIGHT SCHOLARSHIP PROGRAM

¶25. The Fulbright Educational Exchange Program in Chile boasts the first Commission created in Latin America. It celebrated its 50th anniversary last year. It is administered by a binational board with both governments funding scholarships. This year, the USG is providing USD 1,139,000, while the Government of Chile and its universities are providing USD 1,132,000. The Fulbright Scholarship Program in Chile has enabled more than 1500 Chileans to study in the U.S. and 800 Americans to study in Chile. Distinguished Chilean alumni include Minister of Foreign Affairs Walker (whom you will meet) and the current Vice-Ministers of Justice and the Interior. Separately, the

State Department runs an International Visitors (IV) program under which rising national leaders visit the U.S. for 3-4 weeks of professional exchange. In a year-end listing for 2005 of the 100 most important women in Chilean society, eleven were IV alumni.

PROPOSAL TO BRING BACK THE PEACE CORPS

¶26. The Government of Chile proposed a return of the Peace Corps for a specialized program of English teaching. This would present a unique opportunity to demonstrate USG support for democratic stability and economic progress. An assessment team from the Peace Corps came to Chile in August 2005 to lay the foundation for re-entry, meeting with the Ministries of Education and Foreign Affairs. While the team concluded that a return would be beneficial for Chile and would further U.S. policy goals, the project was put on hold for budgetary reasons. Chile has chosen the national goal of English language proficiency as a benchmark for attaining "First World" status and as a bridge to international integration. The return of the Peace Corps to Chile would mutually benefit U.S. and Chilean goals.

CULTURAL AND YOUTH SPORTS EXCHANGE

¶27. Little League Chile, which has just finished its second season, is part of the Embassy's effort to foster stronger U.S.-Chilean cultural ties through our nations' common love of sport. Fifteen teams now comprise the Santiago league. Several other cities are hoping to launch affiliate Little Leagues in the coming year. Little League now has status as a non-profit foundation in Chile, which has prompted interest from both U.S. and Chilean corporations to sponsor teams and donate equipment and funding. The Embassy hopes to widen the sports arena to include soccer ("futbol") and tennis in 2006.

¶28. The Embassy has inherited 11 active binational centers (BNCs) located in most major and "minor" cities and towns in Chile. Offering English language instruction, these BNCs also offer potential venues for guest lecturers, cultural presentations, classes on American history and literature, and art exhibitions. While the former USIA (U.S. Information Agency) stopped subsidizing textbooks and teachers, salaries more than a decade ago, these BNCs are still viewed as outposts of America. Along with the newer "American Corners," the Embassy is constantly seeking funding for these worthy institutions. The Embassy believes these BNCs and American Corners are excellent informal channels for dialogue and exhibitions on the broader range of American culture and values.

FINAL THOUGHTS

¶29. We hope you will return home with three distinct memories of your trip to Chile. First, Chile is a stable, democratic and generally U.S.-friendly country with a robust, export-led economy that is capable in the coming decades of raising the country into the ranks of the "First World." Second, in spite of the worldwide budget crunch and the falling exchange rate, the Embassy is actively and broadly engaged with the Chilean government, military, academia, media and sports and cultural worlds on a wide range of key mutual interests. Third, your visit provided our Mission staff with a wonderful opportunity to introduce you to our work world, to hear the Washington view from congressional leaders such as yourselves, and to exchange ideas on how best to represent U.S. ideals, policies and traditions overseas.

KELLY